

CRS Report for Congress

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Azerbaijan: Recent Developments and U.S. Interests

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Summary

This report discusses political, economic, and security challenges facing Azerbaijan, including the unsettled conflict in the breakaway Nagorno Karabakh region. Oil and natural gas resources are briefly examined. A table provides basic facts and biographical information. This report may be updated. Related products include CRS Issue Brief IB95024, *Armenia, Azerbaijan, and Georgia*, updated regularly.

U.S. Policy¹

According to the Administration, U.S. national interests in Azerbaijan include “strong bilateral security and counter-terrorism cooperation, the advancement of U.S. energy security, progress in free-market and democratic reforms, and mediation of the Nagorno Karabakh conflict.” The participation of U.S. firms in developing Azerbaijan’s energy sector “is key to our objectives of diversifying world oil supplies,” and helping the country improve its economy. Azerbaijan has supported the Global War on Terrorism by offering “crucial law enforcement and intelligence cooperation, blanket overflight rights, and the possible use of bases” (*Congressional Budget Justification for Foreign Operations, FY2005*).

Cumulative U.S. aid budgeted for Azerbaijan from FY1992 through FY2004 was \$500.1 million (FREEDOM Support Act and other program funds), reportedly about the same as donated by the European Union. Of this U.S. aid, about 50.8% was humanitar-

Figure 1. Map



Source: Map Resources. Adapted by CRS. (K. Yancey 3/10/05)

¹ Sources include Foreign Broadcast Information Service, *Daily Report: Central Eurasia*; Radio Free Europe/Radio Liberty, *Newsline*; *Eurasia Insight*; Economist Intelligence Unit; State Department and U.N. information; and Reuters and Associated Press wire service reports.

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ian, while the rest supported democratic reforms (21.5%), economic and social reforms (16.4%), security and law enforcement programs (9.6%), and cross-cutting initiatives (1.7%). In FY2005, estimated U.S. aid was \$52.6 million, and the Administration has requested \$48.1 million for FY2006 (excluding Defense and Energy Department funds), focusing on developing small and medium-sized farms and other agricultural enterprises, on reforming the energy sector, the judiciary, and law enforcement, and on strengthening private business, export controls, and border security. Law enforcement initiatives include counter-narcotics training, support for combating corruption and trafficking in persons, advice on anti-terrorism and money laundering legislation, and help in implementing a criminal code. Humanitarian aid is planned for internally displaced persons and to demine border areas. Azerbaijan signed an agreement in late 2003 to implement funding for some Comprehensive Threat Reduction (CTR) programs. In FY2004 and FY2005, Azerbaijan was designated as a candidate country for enhanced U.S. development aid from the Millennium Challenge Corporation, but in neither year did the MCC (meeting in closed session) select it as a country eligible for aid.

Basic Facts

Area and Population: Land area is 33,774 sq. mi.; about the size of Maine. The population is 8.3 million (*Economist Intelligence Unit*; 2004 estimate), about 40% of whom live in the capital, Baku. Administrative subdivisions include the Nakhichevan Autonomous Republic (NAR) and the Nagorno (“Mountainous”) Karabakh Autonomous Region (NK). NK’s autonomy was dissolved in 1991.

Ethnicity: 90% are Azerbaijani, 2.5% Russian, 2.0% Armenian, 3.5% Lezgins, Talysh, or Tats, and others (CIA, *World Factbook*, 1998 est.). An estimated 6-12 million Azerbaijanis reside in Iran.

Gross Domestic Product: \$8.5 billion; per capita GDP is about \$1,020 (*EIU*; 2004 est., current prices).

Leaders: President: Ilkham Aliyev; *Chairman of the Milli Mejlis (legislature)*: Murtuz Aleskerov; Prime Minister: Artur Rasizade; Foreign Minister: Elmar Mamedyarov; Defense Minister: Safar Abiyev.

Biography: Ilkham Aliyev, born in 1961, graduated with a kandidata (advanced) degree from the Moscow State Institute of International Relations in 1985 and then taught history. In 1991-1994, he was in business in Moscow and Baku, then became head of the State Oil Company (SOCAR). He was elected to the legislature in 1995 and 2000. In 1997, he became head of the National Olympic Committee. In 1999, he became deputy, then first deputy chairman, of the ruling New Azerbaijan Party. In August 2003, he was appointed prime minister, and was elected president on October 15, 2003.

Congressional interests in Azerbaijan and the Caspian regions have been reflected in hearings, visits, and legislation. Congressional concerns about the ongoing NK conflict led in 1992 to Section 907 of the FREEDOM Support Act (P.L. 102-511) that prohibited most U.S. government-to-government assistance to Azerbaijan until the President determined that Azerbaijan had made “demonstrable steps to cease all blockades and other offensive uses of force against Armenia and Nagorno-Karabakh.” Congress eased many Section 907 restrictions on a year-by-year basis until the terrorist attacks on the United States in September 2001, after which it approved an annually-renewable presidential waiver (P.L. 107-115). The conference managers stated that the waiver was conditional on Azerbaijan’s cooperation with the United States in combating international terrorism, and that they intended to “review and reserve the right to amend the waiver language.” Among other Congressional initiatives, beginning with FY1998 appropriations, Congress created a South Caucasus funding category to encourage conflict resolution in NK, provide for reconstruction assistance, and facilitate regional economic integration. Congress passed “The Silk Road Strategy Act” in FY2000 (as part of consolidated appropriations, P.L. 106-113) calling for enhanced policy and aid to support conflict amelioration, humanitarian needs, democracy, economic development, transport and communications, and border controls in the South Caucasus and Central Asia.

Contributions to the Global War on Terrorism

After the terrorist attacks on the United States on September 11, 2001, Azerbaijan quickly granted blanket overflight rights and intelligence support and offered the use of its bases for Operation Enduring Freedom (OEF) in Afghanistan. It participated in coalition peacekeeping in Afghanistan beginning in late 2002 (33 Azerbaijanis were deployed there as of early 2005). The State Department's *Patterns of Global Terrorism 2003* reported that Azerbaijan also stepped up its interdiction efforts against terrorists and equipment transiting its territory and moved against indigenous terrorists and terrorist financing. Azerbaijan was among the "coalition of the willing" countries that openly supported the U.S.-led Operation Iraqi Freedom (OIF). It offered the use of its airbases and assistance in re-building Iraq. In August 2003, Azerbaijan contributed 150 troops to the coalition stabilization force for Iraq (as of early 2005, 150 Azerbaijani troops were deployed in Iraq). NK Armenians and U.S. diplomats have censured some statements by Azerbaijani officials calling for international "counter-terrorism" actions against NK.

Foreign Policy and Defense

President Ilkham Aliyev has emphasized good relations with the neighboring states of Georgia and Turkey, but relations with foreign states have often been guided by their stance regarding the NK conflict. Relations with neighboring Russia have been poor until recently (see below) and remain cool with Iran. Azerbaijan views Turkey as a major ally against Russian and Iranian influence, and as a balance to Armenia's ties with Russia. Ethnic consciousness among some "Southern Azerbaijanis" in Iran has grown, which Iran has countered by limiting trans-Azerbaijani contacts. Azerbaijani elites fear Iranian-supported Islamic fundamentalism and question the degree of Iran's support for an independent Azerbaijan. Azerbaijan is a founding member of GUUAM (formed by the first initials of the members — Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova). GUUAM has discussed energy, transport, and security cooperation, perhaps partly in an effort to counter Russian influence. Azerbaijan is a member of the Black Sea Economic Cooperation group, the Council of Europe (COE), the Economic Cooperation Organization, and the Organization of the Islamic Conference. Tensions with fellow member Iran have been displayed during meetings of the latter two organizations, and with Armenia during meetings of the former two.

Giving in to Russian pressure, Azerbaijan joined the Commonwealth of Independent States (CIS) in September 1993, but it never ratified the CIS Collective Security Treaty and in 1999 refused to re-sign it. Frictions in Azerbaijani-Russian relations include Azerbaijan's rejection of Russia's proposals for a predominantly Russian peacekeeping force in NK and its allegations of a Russian "tilt" toward Armenia in NK peace talks. In 1997, Russia admitted that large amounts of Russian weaponry had been quietly transferred to Armenia, and in 2000, Russia transferred heavy weaponry from Georgia to Armenia, fueling Azerbaijan's view that Russia supports Armenia in the NK conflict. Russia long raised objections to Azerbaijan's efforts to build oil and gas export pipelines bypassing Russia. In 1999, Russia accused Azerbaijan of failing to halt the transit of arms and mercenaries to Russia's breakaway Chechnya region. Azerbaijani-Russian relations appeared to improve in 2002 when the two states agreed on a Russian lease for the Soviet-era Gabala early warning radar station in Azerbaijan and they reached accord on

delineating Caspian Sea borders. Perhaps seeking Russian support for his rule, Ilkham Aliyev in March 2004 reaffirmed the 1997 Azerbaijani-Russian Friendship Treaty.

According to *The Military Balance 2004-2005*, Azerbaijani armed forces consist of 66,490 army, air force, and navy troops. There also are about 5,000 border guards and more than 10,000 Interior (police) Ministry troops. Defense spending has been increasing in recent years, to \$240 million in 2005, about 12% of the budget. Under a 10-year lease agreement, about 1,400-1,500 Russian troops are deployed at Gabala. Azerbaijan reportedly received foreign-made weapons of uncertain origin and armed volunteers from various Islamic nations to assist its early 1990s struggle to retain NK. In 1994, Azerbaijan joined NATO's Partnership for Peace (PFP) to "bring Azerbaijan closer to the Western world," increase aid possibilities, and contribute to ending the NK conflict. Some Azerbaijani troops have participated in NATO peacekeeping in Kosovo since 1997. Within PFP, there are tensions between Armenia and Azerbaijan.

The NK Conflict. In 1988, NK petitioned to become part of Armenia, sparking ethnic conflict. In December 1991, an NK referendum (boycotted by local Azerbaijanis) approved NK's independence and a Supreme Soviet was elected, which in January 1992 declared NK's independence and futilely appealed for world recognition. The conflict over the status of NK resulted in about 15,000 casualties on both sides and over 840,000 Azerbaijani refugees and displaced persons (plus over 300,000 Armenians). NK Armenians control about 15-20% of Azerbaijan's territory (NK and adjacent areas). A ceasefire agreement was signed in July 1994 and the sides pledged to work toward a peace settlement. Reportedly, four peace plans have been proposed by the Organization for Security and Cooperation's (OSCE's) "Minsk Group" countries. In April 2001, the presidents of Armenia and Azerbaijan attended Minsk Group talks in Key West, Florida, and the two later met with President Bush, indicating early Administration interest in a settlement. In January 2005, media in Armenia and Azerbaijan reported negotiations on a "hybrid" peace plan involving the return of most NK border areas prior to a referendum in NK on its status. Also in January, PACE approved a resolution that termed the "occupation of foreign territory by a member state ... a grave violation" of COE commitments. It also called for the safe return of displaced persons and for Azerbaijan to open talks with NK separatists and suggested that if the Minsk Group failed to soon facilitate a settlement, Armenia and Azerbaijan should submit the dispute to the International Court of Justice.

Political and Economic Developments

The Azerbaijani constitution, approved by a popular referendum in November 1995, strengthened presidential power and established an 125-member unicameral legislature (Milli Mejlis) with a five-year term for deputies. The president appoints and removes cabinet ministers (the Milli Mejlis consents to his choice of prime minister), submits budgetary and other legislation that cannot be amended but only approved or rejected within 56 days, and appoints local officials. It is extremely difficult for the Milli Mejlis to impeach the president. The U.S. State Department viewed an August 2002 constitutional referendum as flawed and as doing "very little to advance democratization." Some opposition party leaders objected to provisions eliminating party list voting in future legislative races and designating the prime minister as the next in line in the case of presidential incapacity, death, or resignation, which they predicted would facilitate a succession from then-President Heydar Aliyev to his son, Ilkham.

In June 2000, the Parliamentary Assembly of the Council of Europe (PACE) approved Azerbaijan's membership, conditioned on its compliance with commitments it made, including holding a free and fair November 2000 legislative election. Final results of the vote on the party list ballot resulted in four parties surmounting a hurdle of 6% of the votes to receive seats: the NAP (16 seats); Popular Front (Reform) (4); Civic Solidarity (3); and the Communist Party (2). In single constituency races, NAP or independent candidates won most seats. Prominent opposition parties National Independence, Democratic, and Musavat (Equality) did not win seats in the party list vote (though some members were elected in single constituencies). OSCE and COE observers judged the race "seriously flawed," though they said it showed some reform progress. International observers also judged January 2001 legislative run-off elections as seriously flawed, but PACE admitted both Azerbaijan and Armenia as members later in the month. December 2004 city council elections were also marked by serious irregularities, according to the OSCE.

Marking the closing of an era, Heydar Aliyev suffered serious cardiac problems in April 2003 and was mostly in hospital up through the expiration of his term in October. In what some critics termed a move to ensure a dynastic succession, Ilkham in July proffered his candidacy for the scheduled October 15, 2003 presidential election, but demurred that he was running only to buttress his father's candidacy. On August 4, the legislature hurriedly convened to confirm Ilkham as prime minister, a post permitting him to rule as interim head of state in case his father resigned or died. In early October, the ailing Heydar withdrew from the race in favor of his son. Ilkham Aliyev handily won the election, beating seven other candidates with about 77% of the vote.

Protests alleging a rigged vote resulted in violence, and spurred reported government detentions of more than 700 alleged opposition party "instigators" of the violence. Trials reportedly have resulted in convictions for over 100 and prison sentences for about 40. On October 21, 2003, the State Department expressed "deep disappointment" with "serious deficiencies" in the election. It also expressed "extreme concern" about post-election violence by both police and civilians and about "politically-motivated arrests." Pointing to these problems, in December 2003 the non-governmental organization (NGO) Freedom House downgraded Azerbaijan from "partly free" to "not free." In October 2004, seven leading oppositionists arrested after the election were sentenced to 2-5 years in prison. In February 2005, the OSCE issued a report that concluded that many of the trials fell short of OSCE standards because of pervasive, credible allegations of torture of detainees and the use by the courts of evidence said to have been derived through torture. The OSCE called on the Azerbaijani government to rescind or commute the sentences of those convicted in unfair trials. Also in February, visiting PACE officials warned Azerbaijan that the Council of Europe might consider sanctions against Azerbaijan, including expelling it as a member, if a planned November 2005 legislative election is not free and fair.

According to the U.S. State Department's *Report on Human Rights Practices for 2004*, the Azerbaijani government's human rights record remained poor. Arbitrary arrests and lengthy pretrial detentions continued to be problems. There were fewer credible reports in 2004 that security forces beat and tortured detainees to extract confessions and fewer reported instances of police harassing members of opposition political parties or their families. The president pardoned 55 political prisoners as defined by the COE, but some others remain in prison. The government continued to restrict freedom of speech

and of the press. Most television stations either were controlled by the government or by pro-government owners. Independent print media enjoyed somewhat more freedom and often criticized government policies. However, such media were bedeviled by government-sponsored defamation suits, high court fines for libel, and limitations on printing and distribution. The government did not approve any requests by opposition political parties to demonstrate during the year. It also harassed domestic human rights activists. Some low-level officials continued to harass minority religious groups. Trafficking in persons remained a problem.

The collapse of the Soviet Union and the NK conflict in the early 1990s contributed to the decline of Azerbaijan's GDP by over 60% by 1995. The economy began to turn around in 1996-1997, and the *Economist Intelligence Unit* estimated that real GDP growth was 10.2% and that consumer inflation was 6.7% during 2004. Double-digit GDP growth is anticipated in 2005-2006 with further development of the oil and gas sectors and high levels of foreign investment. A State Oil Fund provides some accountability for revenues. Most small and some medium-sized enterprises have been privatized, but the government is lagging in privatizing large-scale, inefficient firms, where much of the labor force is employed. Net foreign direct investment has increased dramatically in recent years, from \$129 million in 2000 to \$2.4 billion in 2004 (*EIU* est.). The *World Bank* and the non-governmental organization *Transparency International* have viewed Azerbaijan's government as among the most corrupt worldwide. The World Bank reports that poverty rates in Azerbaijan are among the highest in Europe and Eurasia. Azerbaijani officials in 2004 reported that over 40% of the population lived on less than \$1 per day. Up to one-fourth of the population lives and works abroad because of lack of suitable employment within Azerbaijan, according to the State Department.

Energy. The U.S. Energy Department in September 2004 reported estimates of 7-13 billion barrels of proven oil reserves and 30 trillion cubic feet of natural gas reserves in Azerbaijan. U.S. companies are shareholders in three international production-sharing consortiums that have been formed to exploit Azerbaijan's Caspian Sea oil and gas fields, including the Azerbaijan International Operating Company or AIOC, led by British Petroleum (developing the Azeri, Chirag, and Gunashli fields). In 1995, Azerbaijan and the AIOC announced a decision to transport "early oil" (the initial volume of oil from the AIOC fields, along with other Azerbaijani oil) through two Soviet-era pipelines in Georgia and Russia to Black Sea ports. The trans-Russia "early oil" pipeline began delivering oil to the port of Novorossiisk in late 1997. The trans-Georgian pipeline began delivering oil to Black Sea tankers in early 1999. The United States also has backed the construction of a large (one million barrels per day) oil pipeline from Azerbaijan through Georgia to Turkey's Ceyhan seaport on the Mediterranean (the Baku-Tbilisi-Ceyhan or BTC pipeline) as part of Azerbaijan's economic development, and because this route neither allows Russia to gain undue control over Azerbaijan's resources nor forces Azerbaijan to seek export routes through Iran. Construction began in 2003. Tankers may begin receiving the oil at Ceyhan by late 2005. A gas pipeline from Azerbaijan's offshore Shah Deniz field to Turkey is also proposed. As Shah Deniz and other gas fields and infrastructure are developed, Azerbaijan will become self-sufficient in gas.